

Message Text

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C O N F I D E N T I A L JAKARTA 7301

E.O. 11652: GDS
TAGS: MASS, ID
SUBJECT: ESTIMATED GOVERNMENT OF INDONESIA FOREIGN MILITARY SALES
(FMS) CREDIT REQUIREMENTS

REF: STATE 136132

1. INFORMATION CONTAINED REFTEL MUCH APPRECIATED AND MOST HELPFUL. FOLLOWING ARE OUR COMMENTS ON DIFFERENCES BETWEEN DEFENSE SECURITY ASSISTANCE AGENCY (DSAA) AND MISSION PRICING CALCULATIONS:

A. EIGHT F-5E AND FOUR F-5F. IN ADDITION TO COSTS ESTABLISHED IN LETTER OF OFFER AND ACCEPTANCE (LOA), WE HAVE ALSO CONSIDERED TRAINING, SUPPLY SUPPORT, ETC., AT ESTIMATED \$10 MILLION, WHICH GOI WOULD LIKE TO FINANCE WITH CREDITS. WE HAVE BEEN USING \$96.0 MILLION AS OUR PLANNING FIGURE. OF COURSE, FINAL TOTAL COST WILL BE AFFECTED BY ANY ADDITIONS OR DELETIONS OF AVAILABLE OPTIONAL EQUIPMENT. EXCEPT THAT A CLEARER PICTURE OF TOTAL COSTS WILL RESULT FROM THE POST ACCEPTANCE CONFERENCE TO BE CONDUCTED IN JULY.

B. 28 A-4C. BASED ON INFORMATION AVAILABLE TO US, WE HAD BEEN USING \$25 MILLION AS THE TOTAL PLANNING FIGURE, TO INCLUDE BOTH ACQUISITION AND OVERHAUL BUT EXCLUSIVE OF TRAINING EQUIPMENT, SPARES, ETC. IN ADDITION, CALCULATIONS PREVIOUSLY FORWARDED CONSIDERED A TOTAL OF 16 OPERATIONAL AIRCRAFT VICE 24 WHICH NOW APPEARS TO BE THE TOTAL FOR WHICH GOI IS OPTING. CONSIDERING THE
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ADD-ON OF THE PREVIOUSLY EXCLUDED ITEMS AND THE EIGHT ADDITIONAL AIRCRAFT, THE TOTAL OF \$33.7 MILLION FOR THE A-4 CITED REFTEL APPEARS VALID.

C. M16 CO-PRODUCTION. AN ACCURATE ESTIMATE OF THE ULTIMATE COST HAS BEEN DIFFICULT DUE TO SUCH FACTORS AS THE GOI BEING CONSTRAINED FINANCIALLY (AVAILABLE CASH AND FMS CREDITS) FROM PLANNING FOR THE OPTIMUM PACKAGE (300,000

RIFLES) PRESENTED BY COLT. THE GOI HAS CONSIDERED AN INVESTMENT AS LOW AS \$30 MILLION. COLT REPRESENTATIVES HAVE INDICATED TO US THAT, UNTIL THEY WERE ABLE TO MAKE A DETAILED TECHNICAL APPRAISAL OF THE PROPOSED SITE FOR THE FACILITY, COSTING ESTIMATES, OF NECESSITY, WOULD BE ON THE HIGH SIDE. COLT ALSO HAS INDICATED THAT, IN ITS VIEW, THE GOI COULD NOT ACQUIRE A MINIMALLY ECONOMIC PRODUCTION CAPACITY FOR LESS THAN \$55 MILLION. FOR PLANNING PURPOSES, WE HAVE BEEN USING THIS LATTER FIGURE.

D. ARMORED CARS. IT IS UNCLEAR TO US WHETHER OR NOT THIS DESCRIPTION INCLUDES BOTH THE M113 ARMORED PERSONNEL CARRIERS AND THE V-150 ARMORED CARS. AS WE HAVE INDICATED IN THE PAST, WE HAVE URGED THE GOI TO ACQUIRE THE V-150S ON A STRICTLY COMMERCIAL BASIS. WE HAVE CONSIDERED FMS FINANCING OF ONLY THE M113S, THE IMMEDIATE OBJECTIVE BEING 103 VEHICLES AT A COST OF APPROXIMATELY \$13 MILLION. IF ONLY THE M113S ARE INCLUDED IN THE \$20 MILLION FIGURE CITED REFTEL, WE WOULD APPRECIATE BEING INFORMED OF THE BASIS ON WHICH THAT FIGURE WAS DERIVED.

E. THE COSTS OF THE ADDITIONAL FOUR F-5ES AND THE 3-D RADAR ARE CONSISTENT WITH OUR CLACULATONS.

2. WE RECOGNIZE THE ALL INCLUSIVENESS OF REFTEL WITH REGARD TO ITEMS LISTED AND BELIEVE, WITH EXCEPTION NOTED ABOVE, THAT PARA 2 FMS CREDIT REQUIREEMENTS REFLECT REASONABLE PLANNING ESTIMATES. THE INFERENCE IS ALSO DRAWN THAT CONFIDENTIAL

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\$40 MILLION FMSCR CEILING THROUGH FY82 IS A VALID PLANNING FIGURE FOR THE OUTYEARS, ALBEIT IN NO WAY GUARANTEED. OUR MOST RECENT CONCERNS HAVE FOCUSED ON THE IMMEDIATE FUTURE (NOW THROUGH FY80) AND HAVE DEALT PRIMARILY WITH THE FEASIBILITY OF EARLY ACQUISITION BY THE GOI OF WHAT WE PERCEIVE TO BE ITS HIGHEST PRIORITY ITEMS, I.E., F-5 AND A-4 AIRCRAFT AND THE M16 CO-PRODUCTION FACILITY. WE BELIEVE THAT THE GOI DESIRES TO FINANCE THESE ITEMS EXCLUSIVELY THROUGH FMSCR.

BASED UPON THE DIFFERENCES IN COST ESTIMATES NOTED IN PARAS 1A THROUGH 1D ABOVE AND THE METHODOLOGY OF CALCULATION EMPLOYED (I.E., A 3 YEAR (FY78-80) PERIOD AS OPPOSED TO THE DSAA SCOPE OF 5 YEARS (FY 78-82), WE HAVE PROJECTED A CREDIT SHORTFALL OF APPROXIMATELY \$43 MILLION. THIS PROJECTION WAS BASED APPROXIMATED TOTAL COST (\$176 MILLION) OF THESE 3 ITEMS AND ESTIMATE OF CREDIT AVAILABLE/PROJECTED (\$133 MILLION). UNTIL THIS SHORTFALL IS REDUCED CONSIDERABLE EITHER BY QUOTE JUGGLING UNQUOTE F-5 PAYMENT SCHEDULE OR SOME OTHER MEANS, IT WILL BE DIFFICULT FOR THE GOI TO MAKE A COMMITMENT FOR A-4 AND M16. WE BELIEVE IT IS MOST IMPORTANT THAT A NEAR TERM (FY79) COMMITMENT BE FACILITATED.

3. IN ADDITION TO THE MAJOR HIGH PRIORITY ITEMS DISCUSSED IN REFTEL AND IN THIS MESSAGE, THE GOI DOES HAVE OTHER PROGRAMS WHICH IT WOULD LIKE TO UNDERWRITE, ALL OR IN PART, WITH FMSCR. THESE PROGRAMS INCLUDE SUCH ITEMS AS REPLACEMENT OF AN AGING AND DIFFICULT TO SUPPORT FLEET OF GROUND MOBILITY VEHICLES, CONSTRUCTION OF REGIONAL MAINTENANCE FACILITIES, UPGRADING OF THE NAVAL SHIPYARD, COMMAND AND CONTROL UPGRADE, AND CONTINUED SUPPORT-/OVERHAUL OF U.S.-ORIGIN AIRCRAFT AND SHIPS ALREADY IN THE INVENTORY.

4. CONCERNING PARA 4 REFTEL, THE MISSION HAS STRESSED TO GOI AT EVERY APPROPRIATE OPPORTUNITY THAT THIRD
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COUNTRY SALES OF M16S IS PROHIBITED WITHOUT (AS STATED SECTION 124.10, PARA (M) ITAR) QUOTE PRIOR WRITTEN APPROVAL OF UNITED STATES GOVERNMENT UNQUOTE. IF LATTER HAS BEEN MODIFIED TO PROHIBIT THIRD COUNTRY SALES WITHOUT EXCEPTION, AS IMPLIED REFTEL, WE WOULD APPRECIATE BEING INFORMED.
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